

Message Text

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PAGE 01 PANAMA 00642 272242Z

ACTION ARA-06

INFO OCT-01 ISO-00 ONY-00 /007 W

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P 272150Z JAN 77

FM AMEMBASSY PANAMA

TO SECSTATE WASHDC PRIORITY 517

C O N F I D E N T I A L PANAMA 0642

STADIS//////////

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DEPARTMENT ONLY FOR ARA/PAN; AMBASSADOR JORDEN

E.O. 11652: GDS

TAGS: PFOR, PN

SUBJECT: DRAFT OVERVIEW STATEMENT

1. AS PER YOUR INSTRUCTIONS, THE FOLLOWING
DRAFT OVERVIEW IS SUBMITTED FOR YOUR INPUT AND
APPROVAL, IN FULFILLMENT OF THE REQUIREMENT IN STATE 16158:

2. "THE EMBASSY SUBMITTED VIA PANAMA 166 AN ECONOMIC AND
POLITICAL ANALYSIS OF THE CURRENT SITUATION AND THE OUTLOOK
FOR 1977. THE DEPARTMENT SHOULD READ THE FOLLOWING IN
CONJUNCTION WITH THAT MESSAGE.

BEGIN UNDERLINE "POLITICAL, ECONOMIC AND SOCIAL ENVIRONMENT.
END UNDERLINE

"THE GOVERNMENT OF PANAMA IS A MILITARY REGIME DOMINATED BY
THE CHARISMATIC (AND SOMETIMES QUIXOTIC) FIGURE OF GEN. OMAR
TORRIJOS. TORRIJOS TOOK POWER BY A COUP BUT CONSOLIDATED IT
AS THE PALADIN OF PANAMA'S HAVE NOTS--THE PEASANTS, THE
WORKERS, THE LOWER MIDDLE CLASS, THE BLACK AND THE BROWNN.
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HE ALSO GAVE INFLUENTIAL AND REMUNERATIVE PLACES IN HIS EGIME
TO LEFTIST STUDENTS AND INTELLECTUALS, TO BUSINESSMEN AND
TO ECONOMIC TECHNICIANS TRAINED IN THE U.S. NOTWITHSTANDING
THIS POPULAR SUPPORT, THE NATIONAL GUARD WAS AND IS THE
SINE QUA NON OF HIS POWER. TORRIJOS KEPT THE DOOR OPEN TO
THE BUSINESS COMMUNITY--AND AS LONG AS TIMES WERE GOOD,
SUBSTANTIAL NUMBERS OF PANAMANIAN BUSINESSMEN GAVE HIM THEIR

SUPPORT--ALTHOUGH GRUDGINGLY.

"ABOUT 1974, HOWEVER, PANAMA'S ECONOMY ENTERED A RECESSION FROM WHICH IT HAS NOT YET RECOVERED. BUSINESS SUPPORT, ALWAYS SPOTTY, SLOUGHED OFF, AND IN JANUARY 1976 BUSINESS OPPOSITION TO THE REGIME BROKE INTO THE OPEN. TORRIJOS OVER-REACTED BY SENDING A DOZEN PROMINENT ENTREPRENEURS INTO EXILE. STUDENT RESTIVENESS ERUPTED WITH DEMONSTRATIONS OVER PRICE INCREASES IN SEPTEMBER, AND THE NATIONAL GUARD WAS FORCED TO PUT DOWN RIOTS (WITH SOME BLOODSHED BUT NO DEATHS). "SERVICE OF PANAMA'S PUBLIC DEBT CURRENTLY CONSUMES ABOUT 30 PERCENT OF REVENUES AND THAT PERCENTAGE IS ONE THE RISE. GNP GROWTH IN 1976 WAS PROBABLY LESS THAN 1 PERCENT--WHILE POPULATION CONTINUES TO GROW AT ABOUT 3 PERCENT ANNUALLY--AND THE OUTLOOK FOR 1977 IS NOT ENCOURAGING. THE COMBINATION OF A STALLED ECONOMY AND A POTENTITALLY DISASTROUS FISCAL SQUEEZE DICTATED ECONOMY MEASURES IN GOVERNMENT OPERATIONS, NEX TAXES, AND A CHANGE IN THE LABOR CODE IN DECEMBER AND JANUARY. THE GOVERNMENT'S AUSTERITY MEASURES, THOUGH NEEDED, MAY NOT HAVE GONE FAR ENOUGH, BUT NEVERTHELESS HAVE ALIENATED LABOR, CONSUMERS AND PUBLIC EMPLOYEES. THE GOVERNMENT HAS REDUCED THE PEOPLE'S STANDARD OF LIVING WHILE IT ENDEAVORS TO MAINTAIN ITS OWN CREDIT AND TO ENCOURAGE PRIVATE INVESTMENT. BUT WHILE MUCH OF THE CIVILIAN BASE OF SUPPORT FOR TORRIJOS HAS ERODED AWAY, THE ALL-IMPORTANT NATIONAL GUARD STILL REMAINS LOYAL.

BEGIN UNDERLINE "U.S. PANAMANIAN RELATIONS, POLICY OBJECTIVES, AND PROBLEMS. END UNDERLINE
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"OUR CHIEF POLICY AIM IS TO SIGN A TREATY WHICH PROTECTS THE AMERICAN INTEREST OF ASSURING CONTINUED SAFE AND EFFICIENT OPERATION OF THE CANAL. PANAMA NEEDS A NEW TREATY, BUT SO DO WE. PANAMA'S CURRENT ECONOMIC, FISCAL AND POLITICAL PROBLEMS ONLY ADD URGENCY TO HER DESIRE FOR A MODERN TREATY. BUT THE UNITED STATES SHOULD CONSIDER THE NEED FOR THAT INSTRUMENT NOT ONLY IN BI-LATERAL, BUT IN HEMISPHERIC TERMS. PANAMA HAS CONVERTED HER CANAL ASPIRATIONS INTO THE SINGLE MOST VISIBLE PROBLEM ON TODAY'S INTER-AMERICAN AGENDA. WE HAVE THE CHANCE, BY CONCLUDING A TREATY THIS YEAR, TO SIGNAL LATIN AMERICAN NATIONS OUR WILLINGNESS TO DEAL WITH THEM EQUITABLY AND ON A PARTNERSHIP BASIS.

"WHAT HAPPENS IF WE DON'T OR CAN'T?

"NOW MORE THAN EVER TORRIJOS NEEDS A TREATY--FOR THE POLITICAL AND ECONOMIC PICKUP IT IS LIKELY TO GIVE HIS

GOVERNMENT. IF TORRIJOS SHOULD DECIDE HE CANNOT GET AN ACCEPTABLE TREATY THIS YEAR, THERE WILL PROBABLY BE A SERIOUS OUTBREAK OF ANTI-AMERICAN VIOLENCE IN PANAMA AND THE CANAL ZONE--ENCOURAGED BY TORRIJOS, IN ALL LIKELIHOOD. IN THAT CASE, IT WILL BECOME MORE DIFFICULT TO RUN THE CANAL AND MORE DIFFICULT TO NEGOTIATE A NEW TREATY WITH TORRIJOS OR A SUCCESSOR GOVERNMENT, SINCE ANY NEW NEGOTIATORS WILL HAVE TO APPEAR TOUGHER THAN THE LAST. "IN SUMMARY. U.S.-PANAMANIAN RELATIONS ARE GOOD TO THE EXTENT THAT THE OUTLOOK FOR A FAVORABLE RESOLUTION OF THE CANAL PROBLEM IS GOOD. BUT IF THIS ISSUE IS NOT RESOLVED THIS YEAR, RELATIONS WILL ALMOST SURELY DETERIORATE RADICALLY."

3. PLEASE CABLE POST A COPY OF FINALLY APPROVED MESSAGE.
GONZALEZ

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